Guide to Micro-Entrepreneur Business in France

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9. Payment of Taxes and Social Insurance

In the section we explain the arrangements in place for paying social security contributions and income tax.

9.1. Social Insurance Payments

i. Calculation

The contributions are based on your turnover (sales) for the previous accounting period.

Of course, 'sales' rarely equates to 'cash received', due to the gap between invoiced date and receipt of monies.

In addition, some invoices may never be paid due to bad debts, a fact of life for most businesses.

That can inevitably lead to problems of cash flow in the business, particularly if there are also tax and social security contributions to meet.

> The law on the declaration of your *chiffre d'affaires* (turnover) recognises the issue, which states that only cash received is defined as turnover for the purposes of calculating social security payments.

Thus, the guidance issued by the government states: "*Le micro-entrepreneur doit déclarer pour chaque période le montant des recettes réellement encaissées, et non pas facturées.*"

Accordingly, if in the quarter, you invoiced sales of €5,000, but received cash amounting to only €2,500, the amount you declare as your turnover for the period is the lower figure.

Conversely, if you invoiced €5,000 in the reference period, but received cash of €7,000 the figure you report is the larger one.

If you have no turnover in an accounting period then no charges are payable, but you still need to make a declaration.

ii. Payment Schedule

When you create your *micro* business you need to elect whether to pay your social security contributions each month or quarter.

You have 30 days from the end of the accounting period (monthly or quarterly) to pay.

The standard quarterly declaration dates and accounting periods are as follows:

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30th April (January, February and March)
31st July (April, May and June)
31st October (July, August and September)
31st January (October, November and December)
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The first payment is not due until the business has been in existence for at least three months, although you will pay contributions on the turnover you achieved during this

period. Since 1st Jan 2022 you are able to pay from the end of the first month of your new business activity.

Even though there may be no turnover in the period, you are still required to make the declaration, stating '*néant*' where the turnover figure is required.

Your turnover declaration must be made every reference period, either monthly or quarterly, failing which you face penalties for late notification, which may either take the form of interest on the outstanding sum or a fixed sum determined by the social security collections agency URSSAF.

iii. Payment Method

You need to make your payments on-line, by registering on-line at **URSSAF**.

Registration requires you enter your personal details and business and bank account numbers.

You will also need to supply your social security number. This number is given by the local health authority, CPAM, as part of the health registration process. There are often delays in obtaining health registration, and the provisional social security number that is given by URSSAF as part of the business registration process cannot be used to create an account on their website! If this occurs you pay manually using the form that will normally be supplied to you.

If you already have a social security number, then this number does not change with business registration.

Once you have registered and set up a direct payment from your bank, you simply enter your turnover for the period, and the amount you pay is automatically calculated for you. You press '*Envoyer*' and it is all done until the next time. You will receive an e-mail confirmation of payment.

No other form of payment of social security contributions is accepted.

9.2. Income Tax Payments

i. Options

The way you pay your income tax will depend on whether you use the *régime de base* or *micro-fiscal* for income tax, which was considered in the earlier section **Micro-Entrepreneur Income Tax**.

In the case of *régime de base* (since 2019 no longer available) you paid income tax (if any) following receipt of your annual tax notice, although after your first income tax declaration you pay 'on account'. You could arrange to pay monthly or quarterly.

In the case of *micro-fiscal* you pay income tax each accounting period, together with your social insurance payments.

Your periodic on-line turnover declaration will indicate at the top of the declaration the option you have chosen.

ii. Deduction at Source

> Since 2019 the introduction of deduction at source (*prélèvement à la source*) for income tax has slightly changed these arrangements, although not significantly.

You can read a general guide about this new system of of taxation in a Newsletter article we published at **Taxation of Income in France 2019.**

As far as *micro-entrepreneurs* are concerned, they pay income tax on the basis of their turnover, but as this figure cannot be known in real time by the tax office, the deduction at source will be based on the tax return from your previous year, in the form of a withholding tax.

That means that you will pay income tax each month (or quarter) in 2022 on your 2020 income tax as given in your 2021 tax return!

At least, you will do so for the first part of the year, for after submission of your tax return in 2022 on your 2021 income, in September of 2022 the deduction at source will be changed to reflect any differences in income that have arisen.

The same will happen in future years, so that in September 2023 the deduction at source will be updated to reflect any changes in income that occurred in 2022, with the taxpayer asked to pay more or given a tax refund.

The deduction at source will be made on the 15th of every month

If you would prefer that the payment of income tax was made on a quarterly basis, then you can opt to do so on-line through your *micro-entrepreneur account* with URSSAF, the social security contributions collection agency. The first deduction would be 15th Feb and quarterly thereafter.

The amount of the deduction will reflect your income from all sources, such as pension and investment income. The tax due from these different sources will be brought together in a single deduction.

The tax return that you will have received in autumn explains the planned deductions for 2022, for each type of income, and the total amount that will be deducted each month.

You can change the amount of the deduction each month if there is a significant change in your turnover.

However, you need to be careful about doing so, as if you make a major change to the amount payable, which later results in you paying a lot less in tax that the amount you owe you could face penalties.

Although the income tax calculation for micro-entrepreneurs is based on turnover, a fixed cost allowance is granted before tax is determined. This allowance varies by type ´ business, from 34% to 71%. So the tax payable is based on turnover less the allowance.

iii. Micro-Fiscal

Whilst most *micro-entrepreneurs* will face this change, it will not apply to all of them.

Those who have opted to pay income tax each month alongside their social security contributions will not be affected by the change.

These *micro-entrepreneurs* are those who have elected to be taxed on the basis of *micro-fiscal'* (also called *prélèvement libératoire*), under which a small fixed percentage of income tax is payable each month on total turnover. Under this system there is no cost allowance as there is with income tax.

iv. New Business

If you are a new business without a previous income tax record for the business you have three options:

- You can opt for the *micro-fiscal* and pay as you go on your turnover;
- You can elect to pay an amount each month without adopting *micro-fiscal* , or;
- You can simply do nothing and wait until you make your tax return the following year.

You need to register for an income tax account on **Impots Gouv**. You need both a personal account and a professional account, although a personal account cannot be opened until you have made your first income tax declaration and you have a tax number. The professional account is normally only used for the payment of business rates.

You do not make income tax payments on the URSSAF website unless you have opted for *micro-fiscal*.

9.3. Income Tax Return

Completion of your annual income tax return depends on the method of taxation you have adopted.

The form used to make an income tax declaration for *micro-entrepreneur* earnings is F2042C PRO, a complementary form to the main F2042 tax return.

i. Micro-Fiscal

If you have opted for the *micro-fiscal impôt libératoire* during the previous year then your turnover should be declared in the section headed *'Auto-entrepreneur ayant opte pour le versement de liberatoire de l'impot'* .

ii. Régime de Base

Conversely, if you have not opted for *micro-fiscal*, You need to then declare as either *'Revenus Industrials Commerciaux Professionnels'* for commercial and services businesses or, for those who are registered *libérales CIPAV*, the section '*Revenus Non-ommerciaux Professionnels'.*

In both cases you declare your gross income (turnover).

In order to assist in the completion of the tax return, in a rare gesture of cordiality, URSSAF (normally) provide on-line to all *micro-entrepreneurs* a statement (*attestation*

fiscale) showing the level of the turnover declared in the relevant tax year, which, once you have verified that it is correct, can then simply be transcribed onto the tax return. You simply go into your URSSAF account and click on *Mes Documents/Mes Attestations*. URSSAF do sometimes also send them out by post, but they are likely to cease this practice.

You should make sure that the annual turnover figure you declare on your income tax declaration is the same as that you declared to URSSAF, as a mismatch could well lead to a tax investigation.

Next: **Micro-Entrepreneur Business Accounting**

Back: **Micro-Entrepreneurs and VAT**

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